STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

NORTHERN ILLINOIS GAS COMPANY D/B/A NICOR GAS COMPANY	:	
	:	No. 04-0779
Proposed general increase in rates, and revisions to other terms and conditions of service.	:	

ORDER

DATED: ________ ____, 2005

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By the Commission:

Expenses

O. Uncollectibles Expense

Nicor Gas' Proposal

Nicor Gas has proposed to include the gas cost (commodity-related) portion of uncollectibles in Rider 6. That proposal is discussed below in Section IX of this Order.

Nicor Gas has originally proposed $30,355,000 as the total amount of uncollectibles expenses to be included in its operating expenses, subject to its proposal relating to Rider 6. (Nicor Gas Exs. 7.0, 11B.1 at Schedules C-1, C-2.1, C-2.2) Of that amount, $20,216,000 was attributable to the commodity portion, based on a careful, statistically valid calculation of a 66.6% portion being attributable to the commodity, as discussed below in Section IX of this Order. (Nicor Gas Exs. 12A.0, 15.0, 11B.1 at Schedule C-2.2)

In its rebuttal testimony, Nicor Gas presented the updated figures of $35,162,000 for the total amount of uncollectible expenses and $23,417,000 for the commodity portion, based on the impact of higher natural gas prices as of February 7, 2005, a date that Staff proposed to update the cost of equity. (Nicor Gas Exs. 23.0, 26B.0)

Staff's Position

Staff's witness Mr. Struck has accepted Nicor Gas' update of uncollectibles expense. (Staff Ex. 10.0 Revised)

AG's Position

The AG's witness Mr. Effron agrees with updating uncollectibles for higher revenues but opposes the related adjustment to increase the loss ratio to 1.40%, and instead proposed an uncollectibles loss factor of 1.30% based on his use of a different calculation based on historical data. (AG Ex. 1.3)

RGS Position

The RGS support Nicor's proposal to recover uncollectible expenses experienced by Nicor from Nicor sales customers' non-payment of gas charges through Rider 6, but also proposes that, as an alternative, Nicor be required to purchase the uncollectibles receivables from Customer Select and Transportation suppliers. The RGS explain that if uncollectible expenses are recovered through base rates, the Select and transportation customers would be paying for uncollectible expenses which they do not participate in creating. Therefore, the RGS propose that if Nicor sales customers' uncollectible expenses for gas charges are recovered through base rates, then so too should the uncollectible expenses of Select and Transportation customers be recovered through base rates. Under this alternative, Nicor would be compelled to purchase receivables of suppliers at a zero discount, so that Select and Transportation customers would be paying for the uncollectible expenses in the same way as Nicor's Sales customers. If Nicor's proposal is not adopted and Nicor is not compelled to purchase the suppliers' receivables, the RGS suggest that the Commission direct Nicor to reduce the base rates to Select and transportation customers in a manner similar to the way balancing charges are taken out of transportation customers' companion rates. (RGS Ex. 1.0)

Nicor Gas' Response

Nicor Gas states that Mr. Effron's proposal should be rejected because it is flawed in at least two fundamental respects: (1) it relies on historical averages to predict future uncollectibles when historical data indicates that uncollectibles are trending upwards; and (2) Mr. Effron incorrectly compares projected net charge-offs to current revenues to determine the uncollectibles ratio. (Nicor Gas Ex. 41.0)

Mr. Effron's reliance on a historical average is inappropriate as evidenced by the upward trend in uncollectibles discussed by Nicor Gas witness Ms. Suppes in her rebuttal and surrebuttal testimony. (Nicor Gas Exs. 23.0, 38.0) Nicor Gas explained that because uncollectibles are trending upward, a historical average will represent a lower uncollectibles level than would be expected based on the trend. (Nicor Gas Exs. 23.0, 38.0)

Nicor Gas witness Mr. Gorenz has illustrated that projected net charge-offs track most closely with revenues eight months earlier. (Nicor Gas Ex. 26B.0) Comparison of projected charge-offs to current revenues results in an under-representation of the true uncollectibles ratio. (*Id.*)

In fact, Nicor Gas points out that it experienced a 1.40% uncollectibles expense ratio through December 31, 2004 and for the first quarter of 2005 and began the second quarter of 2005 experiencing a 1.45% uncollectibles ratio. (Nicor Gas Ex. 41.0) Nicor Gas therefore states that its update should be approved because Nicor Gas has demonstrated the upward trend in uncollectibles expenses and has shown that this trend is expected to continue.

Commission Conclusion

The Commission will adopt Nicor Gas' proposed update and Nicor Gas' and Staff's agreed figure of $35,162,000 for test year uncollectibles expenses, and the underlying 1.40% uncollectibles loss factor. The record demonstrates that a 1.40% uncollectlbles ratio, as used by Nicor Gas and Staff, more accurately reflects the test year uncollectibles ratio Nicor Gas will experience, and is conservative going forward. Mr. Effron's proposal is inappropriate considering that Nicor Gas has demonstrated the continuing upward trend in uncollectibles expenses and the loss ratio. Because the Commission adopts Nicor's proposal to pass Sales customers' uncollectibles through Rider 6, the Commission does not adopt the RGS' alternative proposal that Nicor be compelled to purchase suppliers' receivables at a zero discount, which would have permited the recovery of all uncollectible expenses through base rates. However, the Commission observes that the RGS' proposals to require Nicor to purchase the uncollectibles receivables from Customer Select and transportation suppliers is a prudent alternative that may be adopted by the Commission in future proceedings.

Rates, Riders, and Other Terms

3. Rider 6

a. Allocation of Hub Expenses Through Revenue Requirement; Hub Revenues

Nicor Gas' Proposal

Nicor Gas initially proposed that collected net Hub revenues should be credited to customers through Rider 6, as a partial offset to Nicor Gas' proposal to include commodity-related uncollectibles expenses in Rider 6. (Nicor Gas Ex. 8.0)

Staff's Position

Staff took issue with Nicor Gas' initial proposal to include net Hub revenues in Rider 6. (Staff Ex. 8.0) However, Staff is in agreement with Nicor Gas' rebuttal position that collected gross revenues from Hub services should be credited to consumers through Rider 6 and Hub administration expenses should be recovered through base rates. (Staff Ex. 17.0)

IIEC's Position

IIEC has objected to the crediting of collected Hub revenues through Rider 6, arguing that transportation customers should share in these revenues. (IIEC Ex. 1) IIEC argued that Hub revenues are derived from Nicor Gas' provision of interruptible transportation and storage services. (*Id.*) IIEC concluded that these revenues do not directly correlate with the prices of gas and thus are not commodity related. (*Id.*) Furthermore, IIEC claims that the Hub revenues are not equivalent to the types of expenses normally passed through a PGA rider, i.e. they are not volatile, significant, or beyond the control of Nicor Gas. (*Id.*) IIEC proposed that the test year amount of net Hub revenues be used to reduce the embedded cost of storage for establishing the SBS charge or that the net revenues be returned via a rider that applies to all customers on the basis of total thru-put volume. (*Id.*)

Vanguard's Position

Vanguard has expressed a view similar to that of IIEC, arguing that transportation customers should also share in the credit of Hub revenues. (Vanguard Ex. 1)

RGS' Position

RGS has also expressed a view similar to that of IIEC and Vanguard. (RGS Ex. 1.0) RGS explained that Nicor Gas' proposal is discriminatory towards transportation customers. (*Id.*) RGS explained that Nicor Gas' proposal attempts to mitigate the impact on sales customers of other rate design issues such as the inclusion of uncollectibles in Rider 6. (*Id.*) RGS explained that all customers pay for the assets which support Hub services and therefore all customers should receive the benefit of the Hub revenues. (*Id.*) RGS also explained that if Hub expenses are paid for by all base rate paying customers, and Hub revenues are only allocated to Rider 6 customers, then customers that purchase commodity service from someone other than Nicor subsidize Rider 6 commodity customers. (*Id.*) RGS also observed that no party had claimed that it was equitable to allocate the Hub revenues only to Rider 6 customers, and that as long as the assets of all customer classes were being used to generate Hub revenues, then it would only be equitable if all customers shared in the revenues equally. (*Id.*) The RGS also pointed out that Nicor's proposal to allocate Hub revenues to the PGA while including Hub expenses in base rates flies in the face of the logically equitible principal of matching costs with expenses.

Nicor Gas' Response

As stated, Nicor Gas and Staff subsequently agreed that gross revenues from Hub services collected by Nicor Gas should be credited to sales customers through Rider 6, and that the administration fees associated with these revenues, which have been forecast at $1,079,000 in 2005, should be recovered as operating expenses through base rates. (Nicor Gas Exs. 24.0, 39.0) However, Staff also recognized the inequity that would be created if Select and Transportation customers were not able to share in the Hub revenues and encouraged Nicor to develop a mechanism that would also allocate revenue to Select and Transportation customers. (Staff Ex. 8.0) Nicor also stated that if the Commission determined that all customers should share in the Hub revenues, it could create a mechanism that would accommodate this. (Nicor Gas, Ex. 44)

Nicor Gas stated that much of the ability to provide Hub services comes from the fact that transportation customers operate for their own financial benefit which results in increased gas costs to sales customers. (Nicor Gas Exs. 24.0, 39.0) As a result, Nicor Gas argued, there are times when services can be made available for short periods with assets taken from transportation customers, without compensation. (Nicor Gas Exs. 24.0, 39.0) Although Nicor also argued that the costs associated with various gas purchasing decisions were borne by sales customers, (Nicor Gas Exs. 24.0, 39.0; Tr. 538–539), it did not provide examples of additional Hub services costs that would be allocated to sales customers alone.

The Commission's Conclusion

The basic disagreement amongst the parties is whether the transportation customers should also be included in the credit of Hub revenues Although Nicor Gas has argued that the volatility of natural gas justifies disconnecting the use of assets, expenses and revenues derived from Hub assets, the Commission finds no such correlation. Staff correctly noted that if revenue derived from Hub services were allocated only to Rider 6 customers, the transportation and Select customers would be deprived of revenue to which they were entitled. As explained by the RGS, Nicor has not demonstrated that sales assets alone are used to provide Hub services. In fact, the majority of assets used to provide Hub services belong to transportation customers. Therefore, the Commission finds that gross revenues from Hub services collected by Nicor Gas should be credited to all customers through base rates, and that the administration fees associated with these revenues are allowed as operating expenses to be collected through base rates.

b. Commodity Portion of Uncollectibles

Nicor Gas' Proposal

Nicor Gas has proposed to recover commodity-related uncollectibles expenses in Rider 6. (Nicor Gas Exs. 12A.0, 8.0) Nicor Gas presented both the grounds for this proposal as well as documentation of the statistical analysis performed to split commodity-related uncollectibles expenses from other uncollectibles expenses. (Nicor Gas Exs. 12A.0, 15.0, 8.0)

Staff's Position

Staff disagreed with Nicor Gas' proposal to include commodity-related uncollectible expenses in Rider 6. (Staff Ex. 1.0) In addition, if Nicor Gas' proposal were to be adopted, Staff proposed to review annually the percentage of uncollectibles to pass through Rider 6 as commodity related. (Staff Ex. 1.0)

CUB/CCSAO's Position

CUB/CCSAO argues that Nicor Gas's proposal to recover commodity related uncollectibles through Rider 6 constitutes single-issue ratemaking and should be rejected for this and other reasons. (CUB/CCSAO Ex. 2.0)

DRI's Position

DRI agreed with Nicor Gas' proposal to pass the commodity-related uncollectibles through Rider 6. (DRI Ex. 1)

RGS' Position

The RGS also supported Nicor gas' proposal that commodity-related expenses be recovered through Rider 6 but also proposes that, as an alternative, Nicor be required to purchase the uncollectible receivables from Customer Select and transportation suppliers or reduce base rates for applicable sales and transportation customers. (RGS Ex. 1.0; *see infra* VI(O))

Nicor Gas' Response

As previously stated, DRI and RGS support Nicor Gas' proposal. Nicor Gas states that Staff's and CUB/CCSAO's objections to the proposal, including Staff's objections based on an incorrect interpretation of the purposes of the PGA, 220 ILCS 5/9-220, are without merit; Nicor Gas' commodity-related uncollectibles expenses improve the accuracy of the PGA reconciliation mechanism by better reflecting Nicor Gas' actual costs and revenues relating to the cost of gas, are includable under 83 Ill. Adm. Code Part 525, and should be included in the interests of customers as well as Nicor Gas. (Nicor Gas Exs. 12A.0, 27A.0, 34.0) Nicor Gas states that Staff's related, alternative proposal, that a recalculation of the split between commodity-related and other uncollectibles expenses should occur each year also is without merit. (Nicor Gas Exs. 27A.0, 34.0) According to Nicor Gas, the current calculation presented in this proceeding is accurate and Staff's proposed annual review is an unnecessary burden on both Nicor Gas and the Commission. (Nicor Gas Exs. 27A.0, 34.0)

Commission Conclusion

Nicor Gas has presented a detailed, statistically valid analysis of the appropriate amount of uncollectibles associated with the cost of gas. In addition, all of the parties recognize that Customer Select and transportation customers should not be charged for the commodity related uncollectible expenses of Nicor Gas' customers. Nicor Gas has shown that the inclusion of commodity related uncollectibles in Rider 6 will improve the accuracy of the PGA reconciliation mechanism. The recovery of uncollectibles through the PGA will better reflect the actual cost of gas and recoveries of such costs. Therefore, the Commission approves Nicor Gas' proposal to pass commodity-related uncollectibles through Rider 6 but also observes that the RGS' proposal to require Nicor to purchase the uncollectibles receivables from Customer Select and transportation suppliers is a prudent alternative that may be adopted by the Commission in future proceedings.

c. Commodity Portion of Gas Cost

See Section IX(B)(3)(b) of this Order.

d. Gas Storage Losses (2% Withdrawal Factor)

See Section VI(C) of this Order.

e. Working Capital on Gas Storage

DRI's Proposal

DRI has asserted that Customer Select customers should not be required to pay for working capital on gas in storage, as they do not utilize Nicor Gas' storage inventory. (DRI Ex. 1.0) According to DRI, Customer Select customers currently pay for a portion of the working capital on gas in storage and therefore DRI has proposed that they receive a credit. (*Id.*)

Staff's Position

Although Staff initially supported DRI's proposal, Staff now agrees with Nicor Gas that the proposal is without merit as the Customer Select customers already receive credit for the working capital on gas in storage. (Borden, Tr. 1048)

RGS Position

The RGS explained that in Docket 00-0620 and 00-0621 a compromise was reached related to administrative expense associated with the Customer Select program. (RGS Reply Brief at 14-17.) The RGS explained that the compromise reduced the $1.03 administrative charge to $0.59 per month, per customer. However, the compromise that was reached was reached in a different case, with different parties and different cost structures. Given this, the Administrative Charge and the appropriateness of the credit for the working capital on gas in storage charge through the Administrative Charge needs to be reviewed. As the RGS explained, the Administrative Charge credit to Customer Select customers does not take into account the increase in working capital on gas storage that Nicor is requesting in the instant proceeding or the disparity between the credit as a per month per account flat amount and the per therm charge associated with the working capital on gas in storage charge. The RGS explained that the working capital on gas in storage charge is a per therm throughput charge, while the compromise reduction in the administrative charge from $1.03 to $0.59 per customer per month is a set amount (reducing the administrative charge by $0.44 per customer per month). As part of this Rate Case, Nicor is requesting a signinficant increase in the rates recovered for working capital on gas in storage and as the RGS further explained that this results in a significant difference between what Customer Select customers are paying for working capital on cost of gas and the "credit" that is being provided to off-set this inappropriate charge. (Id.) The RGS concluded that in order to correct this disparity, it is time again look at the appropriatness of the amount of Adminstrative Charge and the crediting for the working capital on gas in storage charge through the Adminstrative Charge instead of a separte crediting mechinism. The RGS asserted that a mechinsim needs to be created to address the working capital on gas in storage charge that is improperly being assessed through base rates for Customer Select customers and, at a minimimum the disparity that exists between the the administrative charge credit and the increases being sought by Nicor

Nicor Gas' Response

Nicor Gas does not dispute that Customer Select customers should receive a credit for working capital on gas in storage. However, Nicor Gas noted that Customer Select customers do receive a credit, which was determined by the Commission in Docket Nos. 00-0620 and 00-0621 to account for working capital on gas in storage. Citizen's Utility Board, I.C.C. Docket Nos. 00-0620 and 00-621, consolidated, (January 3, 2002)(Order on Rehearing) However, Nicor did not address the additional costs as a result of the increase in working capital on gas in storage. Nicor did not address the disparity that exists between the per month per customer charge resulting from the compromise ($1.03 to $0.59 to provide a credit of $0.44 per month, per account), the per therm charge that is assessed to customers, or the increase costs that will be experienced without a corresponding reduction in the monthly administrative fee.

Nicor Gas stated that if the Commission were to adopt DRI's proposal, then the Commission should also recognize the double-counting of the credit and increase the Customer Select monthly Account Charge from $0.59 to $1.03.

The Commission Conclusion

The Commission has previously addressed the application of a credit for Customer Select in Docket Nos. 00-0620 and 00-0621. However, that Docket did not address the disparity that would be created by an increase in Nicor's working capital on gas in storage costs, which is what has been proposed in this proceeding. Further, as explained by the RGS, there appears to be a significant disparity between the amount Customer Select customers are paying through base rates for the working capital on gas in storage and the corresponding reduction in the Customer Select monthly Account Charge created in Docket Nos. 00-0620 and 00-0621. As Customer Select customers should receive a credit for working capital on gas in storage, so too a change needs to be made through a corresponding reduction in the Customer Select suppliers currently paying for working capital on gas in storage. Thus, the allowance of an additional credit would result in recovery of the Customer Select monthly Account Charge. The cost to Customer Select customers for base rate charges associated with working capital on gas in storage, as pointed out by the RGS, is approximately $30.00 per year. Initially, the requested administrative charge was $1.03 per month, per account. Although there will still be a disparity between the cost to Customer Select customers for the base rate charge and the reduction in Customer Select monthly Account Charge, the Commission finds that an elimination of the Customer Select monthly Account Charge is appropriate. If Nicor or any other party to the instant proceeding desires to further address this issue, a separate petition to the Commission should be filed.

7. Rate 21 – Interruptible Transport and Storage Service

Rate 21 involves the sale of storage and transportation services through "the Hub." Nicor Gas explains that the Hub, despite its name, is not an actual physical location or piece of equipment, but a collection of storage and transportation services that Nicor Gas provides transportation customers, local distribution companies, and others, on an interruptible basis only. Interstate services are offered pursuant to an operating statement on file with FERC, while intrastate services are offered pursuant to Rate 21. (Tr. 507; Nicor Gas Ex. 8.0)

Nicor Gas' Proposal

Nicor Gas proposed to amend Rate 21 to effect three changes: (1) to allow for loans as, or as part of, intrastate transactions, (2) to remove the current 120-day limit on intrastate transactions and no longer specify a one-year maximum contract length, and (3) to permit Nicor Gas to offer "priority interruptible" services. Initially, Nicor Gas had also proposed to offer firm transportation services under Rate 21, but withdrew that proposal in its rebuttal testimony. These changes were proposed to make Nicor Gas' intrastate Hub services similar to those offered under Nicor Gas' FERC tariffs. (Nicor Gas Ex. 8.0)

Staff's Position

Staff did not oppose Nicor Gas' general proposal to modify Hub services, but Staff did question the use of loans, the removal of the 120-day duration and the lack of a maximum length of the master contracts. Staff Witness Borden argued that Nicor Gas has not shown that the removal of such limitations or the use of loans will not harm retail customers. In his rebuttal testimony, Mr. Borden withdrew his reservations about the use of loans in general, but maintained the concern regarding the duration of Hub transactions. Staff expressed doubt as to whether any customers would switch to Hub services from FERC tariffed service as a result of the proposed changes. Staff also argued that a time limit is important to restrict Hub contracts to shorter durations so as to prevent retail customers from being detrimentally impacted. (Staff Ex. 8.0) Staff conceded that it had been unable to identify any Hub transactions to date that have increased costs to sales customers in connection with its rationale that Hub service revenues should be allocated to Rider 6. Staff suggested that Rider 6 was the appropriate place to allocate Hub revenues, not because Sales customers' assets were being used for the services or because sales customers were paying the expenses, but rather as a disincentive for activity that may occur without such an allocation. (*See* Staff Initial Brief at 109) Staff also recognized that transportation customers were being deprived of revenues to which they were entitled, and encouraged Nicor to develop a mechanism that would credit Hub revenues to transportation and Select customers in a maner similar to sales customers. (*Id.* at 110)

Nicor Gas' Response

In rebuttal testimony, Nicor Gas withdrew its proposal to offer firm services through the Hub. In response to Staff's concerns on the length of transactions other than loans, Nicor Gas argued that this provision applies to the master contracts that specify the commercial terms for the Hub services, such as specifying the service that the customer will use, and is meant to cover all of the customer's Hub transactions. According to Nicor Gas, a longer term for the master agreement will lessen Nicor Gas' administrative burden, but does not imply that Hub loans themselves will have long-terms. Nicor Gas asserts that this will not increase risk or costs to retail customers. (Nicor Gas Ex. 24.0)

Nicor Gas argues that sales customers would benefit from the longer term of loans as more demand would exist for Hub services, which results in increased revenue being passed through the PGA to customers. Nicor Gas' initial position was that revenues should be matched to expenses, and the revenues should be allocated to the base rates. This position subsequently changed and Nicor Gas has since argued that if the Commission determined that Hub revenues should be allocated to all customers, it could accommodate such a structure. (Nicor Gas, Ex. 44.)

Commission Conclusion

Nicor Gas has addressed several of Staff's concerns regarding changes to Hub services. However, as a number of the parties in this proceeding have asserted, expenses and revenues should be properly aligned to avoid subsidization of one customer class by another. The Commission remains concerned that Hub services are not being offered by Nicor Gas, but instead a wholly owned, unregulated affiliate of Nicor Gas, and that as a result, not enough information has been developed for the Commission to properly evaluate the impact Hub services will have on the Nicor customer base as a whole. Before the Commission permits any changes to the current Hub system, additional time must be spent on information development. Therefore, the Commission approves Nicor Gas' proposed changes to Rate 21 with respect to reclassification of the ASBC charge to an CSBC charge and orders that, within 30 days of entry of this Order, Nicor convene a collaborative with all interested stakeholders to further develop and investigate the proposed changes to the Hub services. Nicor shall report back to the Commission not later than 120 days after entry of this Order with either an agreed upon stipulation or additional recommendations to the Commission.

8. Rates 74, 76, 77

Nicor Gas discussed the proper development of all of the non-residential rates, including Rates 74, 76, and 77, as reflected in Section IX(B)(5) of this Order. Rates 74, 76, and 77 are Nicor Gas' tariffs for transportation service. Transportation customers purchase their own gas, and can purchase storage service on the Nicor Gas system. The basic thread of Nicor Gas' proposed changes to these tariffs, and the transportation customers' objections to those changes, is how much flexibility and freedom the transportation customers should have using the Nicor Gas system, with the majority of these issues being zero-sum: flexibility given to one class of customers may cause additional costs or loss of flexibility for other customers. (Nicor Gas Ex. 12B.1)

(a) Allocation

(1) Storage Capacity Allocation

Nicor explains that Storage Banking Service, typically called SBS, is a service offered to transportation customers which allows them to serve all or part of their demands from supplies of gas that they have previously stored in Nicor Gas' storage fields. In addition, when transportation customers' deliveries in a day exceed demand, they may store the excess gas in Nicor Gas' fields. Each eligible customer has the right to elect for an annual period the amount of SBS it wishes to take, up to a certain guaranteed amount. (Nicor Gas Ex. 8.0)

The parties have agreed that the amount of SBS to which each transportation customer is entitled is a function of the total available seasonal withdrawal capacity and an allocation among these customers based on each individual customer's Maximum Daily Contract Quantity (MDCQ). The MDCQ is the maximum amount of gas that the customer can require Nicor Gas to deliver on a given day. (Nicor Gas Ex. 8.0)

Nicor Gas' Proposal

Nicor Gas has used the formula approved in the last rate case, ICC Docket No. 95-0219, to determine the allocation of SBS. Nicor is proposing reducing the numerator in the equation from 149.74 bcf of its admitted working gas capability to 120 bcf of what Nicor has coined "anticipated cycled gas." Anticipated cycled gas is the estimated amount of gas to be cycled during a year, divided by the estimated peak day send out for the entire system. Based on this calculation Nicor Gas proposed reducing the SBS allocation from its current 26 times a customer's MDCQ to 23 times a customer's MDCQ. This update is reflected in Nicor Gas' proposed Terms & Conditions dealing with transportation services, SBS and Firm Backup Service (Sheet No. 49), and SBS and FBS selections (Sheet No. 50.1). Likewise, Nicor Gas has proposed a significant reduction to the level of storage allocated to each Customer Select Group under Rider 16 (Sheet No. 75.7) as a result of this change in the composition of the formula. (Nicor Gas Ex. 8.0)

No party has taken issue with the use of the methodology from Nicor Gas' last rate case or with Nicor Gas' proposed peak day send out of approximately 52,580,000 therms. Nicor Gas used 120 Bcf, which is an estimated number that is intended to represents the amount of gas that Nicor Gas anticipates to cycle in a year, as the numerator in the equation. However, as demonstrated by several witnesses in this case, Nicor has consistently cycled significantly greater amounts each of the past five years, averaging approximately 135.7 bcf of cycled gas each year.

Staff's Position

Staff recommended that the Commission maintain the MDCQ approach as it links allocation to use of storage capacity at peak times. Staff asserted that the correct figure to use for the numerator is Nicor Gas' coincident maximum working gas. Staff calculated averages of coincident maximum working gas over the last three, five, and ten years. Using these figures, Staff calculated a storage allocation of 27 times the customer's MDCQ.

IIEC-CNE-RGS Position

IIEC, CNE, and RGS disagreed with Nicor Gas' proposed cycled gas volume of 120 Bcf. They have argued that Nicor Gas should use a figure of 149.74 Bcf, which represents the working gas for Nicor's on-system storage fields. The RGS also explained that Nicor is requesting an additional $18,543,000 in working capital gas in storage costs be passed through base rates if the proposed reduction in allocation is approved by the Commission. Nicor argues that it will need the additional money to manage the additional assets that will be made available with this change. (Nicor Initial Brief at 37.) IIEC, CNE, and RGS explain that transportation customers should be entitled to an amount based on the capacity of Nicor Gas' storage fields since the transportation and Select customers are required to pay for that storage through base rates. Using the figure proposed by IIEC and CNE results in a storage allocation of 28.5 times MDCQ. (IIEC/CNE Jt. Ex. 1) RGS also demonstrated that a reduction in natural gas allocation based upon assertions by Nicor that it cannot efficiently and prudently withdraw all of the working gas from storage at the same time is not relevant to a discussion of what storage should be allocated to which customers. Thr RGS further explained that customers pay for the entire working gas storage and, further, Select customers already are required to maintain 3 times MDCQ in storage at all times. The RGS concluded that requiring an additional reserve, as Nicor proposed, would in essence, double penalize the Select customers by further reducing their storage allocation and utilization rights.

Nicor Gas' Response

In regard to Staff's calculation of coincident peak, Nicor noted that Staff had not corrected its figures for Nicor Gas' recent reclassification of working gas when reviewing historical numbers. Nicor Gas showed that the reclassification must be considered to compare historical averages with the test year forecast. When corrected for Nicor Gas' reclassification, the averages of the last three, five and ten years would be 136, 138, and 133 Bcf. (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0) These corrected averages result in an allocation of 25 times MDCQ, not 27 as reported in the Staff testimony and not 23 as argued by Nicor. Staff did not agree with this assertion and continues to assert that the proper allocation should be 27 times MDCQ. (Staff Initial Brief at 118.)

In regard to the suggestion to use the non-coincident peak volume of 149.74 Bcf for the storage allocation numerator, Nicor Gas asserted that the non-coincident capacity is the total of the capacity of each storage field, even though they reach their maximum capacity level on different days. Also, Nicor Gas argued that the Commission should use the estimated gas actually cycled instead of total working gas.

Nicor Gas argued that total working gas, even the coincident total, is not, however, the correct figure. Total working gas is an amount which, in theory, Nicor Gas could draw out of its fields and reinvest over the course of a year. Nicor asserted that it was necessary to draw its working gas down to zero before beginning to inject gas to meet its requirements for the following season. According to Nicor Gas, this is something that Nicor Gas cannot prudently do. (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0)

Commission Conclusion

All parties have taken issue with the proposed reduction that would result from using 120 Bcf of anticipated cycled gas as opposed to the gas for which all customers pay through base rates, being 149.74 bcf of working gas. The 120 Bcf figure used by Nicor Gas is, by Nicor's own admission, represents anticipated or estimated gas to be cycled in a given heating season. Nicor also admitted that over the past several years, the actual amount of natural gas that was cycled was significantly greater. The amount of natural gas that is cycled in a given year is traditionally a product of weather, gas prices and other similar factors and variations in actual cycled gas. Nicor has also stated that all customers pay, through base rates, for the working gas of 149.74 bcf and not the anticipated cycled gas of 120 bcf. Nicor also asserted that it is necessary for the system to fully cycle as much of the working gas as possible each season to protect the integrity of the system, but also has asserted that it is not prudent to fully empty working gas inventories. Both statements cannot be correct. Although there may be merit to Nicor's arguments regarding the need to fully cycle gas, there is no merit to its contention that anticipated cycled gas is the proper factor for determining storage allocation. Nicor has not demonstrated any correlation between its "anticipated cycled" figure of 120 bcf and the gas that actually has been cycled by Nicor over the past several years. Additionally, Nicor has not proposed reducing the base rate charge to non-Sales customers as a result of the proposed reduction in storage allocation, continuing to use the working gas as the measure of the base rate cost. This has been demonstrated with their request for an additional $18,543,000 in working capital for gas in storage if the reduction is approved. Further, the IIEC, CNE and RGS have demonstrated that 149.74 bcf of working gas is the storage for which the Select and Transportation customers pay, and therefore should be the factor used to determine storage allocation. Therefore, the Commission finds that the 149.74 Bcf figure should be used, resulting in an allocation of 28.5 times a customer's MDCQ.

(2) Storage Withdrawal Rights

Nicor Gas' Proposal

Nicor Gas has proposed rates which impose increased withdrawal limitations on Operational Flow Order (OFO) Shortage Days and Critical Days. Using the same methodology as approved in its last rate case, Nicor Gas updated the calculation using its current operating conditions and capabilities. As reflected in proposed tariff sheets 74, 76, and 77 and Rider 13, Nicor Gas proposes to decrease the cap on permitted withdrawals on a Critical Day or OFO

Shortage Day from 0.023 times the customer's selected SBS capacity to 0.021 times that capacity. (Nicor Gas Ex. 12B.1)

Nicor Gas presents two reasons for the proposed decrease. First, Nicor Gas argues that its storage assets have a finite amount of withdrawals that can take place on any one day, therefore if Nicor Gas is to be able to serve all customers, it cannot allow unlimited withdrawals on a Critical Day or an OFO Shortage Day. Second, according to Nicor Gas, Critical Days and OFO Shortage Days require careful planning. Thus, Nicor Gas argues that large and unpredictable withdrawals by SBS customers could cause Nicor Gas to exceed its physical maximum daily withdrawal capacity.

Staff Staff supports Nicor Gas' proposal to reduce maximum daily nominations by transportation customers but found no basis for the claim that transport customers take advantage of the nomination rules to the detriment of sales customers. Staff requested further support from Nicor for its position or recommended levels not as high as twice the MDCQ but still high enough to afford transportation customers flexibility**.** (Staff Ex. 8.0)

RGS' Position

RGS opposed the reduction for the reason that Nicor Gas used a planned cycled amount of 120 Bcf, rather than a higher number in determining the 2.1% limit. RGS argues that Nicor Gas should use a figure of 149.74 Bcf, which represents the working gas of the eight storage fields for which all customers pay through base rates. (RGS Ex. 1.0)

Nicor Gas' Response

It is Nicor Gas' position that in order to serve all customers on a Critical Day without undue cost shifting, it is important that customer access to storage reflects the Nicor Gas' overall capabilities. (Nicor Gas Ex. 8.0)

Commission Conclusion

As described previously, the Commission finds that Nicor Gas has not demonstrated that 120 Bcf is the appropriate figure for gas expected to be cycled and, instead, the working gas figure of 149.74 is the appropriate storage allocation numerator. However, given the support for the 149.74 Bcf figure, the reduction from 2.3% to 2.1% of a customer's total storage capacity is reasonable. Therefore, the Commission approves Nicor Gas' proposed withdrawal limitation of 2.1% of a customer's total storage on a Critical Day or OFO shortage days.

(3) Daily Delivery Algorithm /Weather Sensitivity

The issue of Nicor Gas' daily delivery algorithm and weather sensitivity is discussed below in Section IX(B)(10)(c) of this Order.

(4) Maximum Daily Nomination

Nicor Gas' Proposal

The daily nomination is the amount of gas a transportation customer can deliver to Nicor Gas for use or additions to storage. Nicor Gas proposes that maximum daily nominations by transportation customers during the heating season be reduced from two times the customer's MDCQ to one times the customer's MDCQ. According to Nicor Gas, the basic principle underlying the change is that winter injections runs counter to Nicor Gas' overall objectives to cycle its fields. (Nicor Gas Ex. 12B.0) However, Nicor Gas also notes that at various times throughout the heating season, it will inject gas into storage to refill storage after periods of withdrawal or in anticipation of additional need at later periods in the heating season. (*Id.*)

Staff's Position

Staff supports Nicor Gas' proposal to reduce maximum daily nominations by transportation customers during the heating season from two times the customer's MDCQ to one times the customer's MDCQ. (Staff Ex. 8.0)

Vanguard/CNE/IIEC's Position

Vanguard, CNE, and IIEC suggests that Nicor Gas should not be restricting gas flow into the system during the cold months when gas use is at its highest. (IIEC Ex. 2)

RGS' Position

RGS claims that Nicor Gas' proposal "discriminates" against transportation customers by not taking into account the fact that not all transportation customers will inject or withdraw at the same time, or that flat load customers burn near or at their MDCQ throughout the year. Such a use profile makes it difficult for transportaion customers to inject during the heating season in any significant amounts. RGS also explained that this usage profile presents a disparity between the way Nicor uses the system for its customers and the way the transportation suppliers can use the system for their customers. RGS explains that since Nicor Gas injects gas during the winter, it is unduly attempting to prevent transportation customers from having the same flexibility. (RGS Ex. 1.0)

Nicor Gas' Response

Nicor Gas states that its proposal still allows transportation customers to nominate their entire MDCQ during the winter and to inject the amount nominated in excess of usage. Since some transportation customers are not using their MDCQ every day, some transportation customers will have the flexibility to do some re-injection in the winter. According to Nicor Gas, the flexibility currently in place for one segment of customers runs directly counter to Nicor Gas' goal of cycling its storage as a whole. (Nicor Gas Ex. 24.0)

Nicor Gas responded to Vanguard's, CNE's, and IIEC's arguments, stating that based on experience running the storage fields, Nicor Gas' proposed limits will not reduce gas deliveries to the system on cold days when Nicor Gas needs it most. (Nicor Gas 39.0)

In response to the RGS' argument, Nicor Gas states that no discrimination would result from the proposed limitations on transportation customers' use of the system. According to Nicor Gas, even one MDCQ provides more flexibility than Nicor Gas' system actually would have if every customer chose on the same day to nominate its entire MDCQ in addition to actual usage. (Nicor Gas Ex. 24.0) Withdrawals at high rates impact subsequent days, and Nicor Gas argued that it may need to re-inject gas to be able to meet demand for all customers. (Nicor Gas Ex. 39.0)

The Commission's Conclusion

Nicor Gas's storage assets require cycling within parameters in order to maintain optimum operability. The system has been operated for years with a permittable 2 times MDCQ during winter periods as the nomination limit. However, the Commission recognizes that changes to the Select and transportation programs may necessitate reductions in nomination levels. However, nothing presented by Nicor Gas warrants reducing the nomination to 50% of the current level. Also, as explained by the RGS, transportation customers with relatively flat loads will use close to their MDCQ each day, and will be significantly impaired in their ability to react to periods where injection is prudent. Further, as Nicor stated, it is necessary from time to time to inject gas back into storage following periods of sustained usage. With the proposed reduction to one times MDCQ, the Commission believes that transportation customers would be significantly impaired. Therefore, although the Commission finds that a reduction in the nomination during winter periods is reasonable, it only partially approves Nicor's proposal and modifies Nicor Gas' proposal to reduce maximum daily nominations by transportation customers during the heating season from two times the customer's MDCQ to one and one-half times the customer's MDCQ. Such a reduction should provide transportation customers with sufficient flexibility. Therefore, the Commission approves Nicor Gas' proposed reduction, as modified, in maximum daily nominations to one and one-half times a customers MDCQ during the heating season.

(5) Upstream Pipeline Capacity

The issue of upstream capacity is raised by DRI and RGS, and is addressed below in Section IX(B)(10)(e) of this Order.

(b) SBS Charge

Nicor Gas' Proposal

Transportation customers may select, within limits, a level of Storage Banking Service (SBS), and pay a separate charge for that service. Nicor Gas has proposed an SBS charge in this proceeding by taking the cost of storage, as developed by its ECOSS, subtracting the cost related to top gas (since transportation customers supply their own gas), and dividing by the amount of gas that Nicor Gas expects to cycle (inject and withdraw) in a season. No party disputed that this was conceptually a valid calculation.

IIEC's Position

IIEC argues that Nicor Gas did two things wrong in selecting the numbers for its calculation. First, IIEC argues that Nicor Gas should have credited Hub revenues to the cost number in the numerator. Second, IIEC claims that Nicor Gas should have used total non-coincident maximum top gas, 149.47 Bcf, rather than the 120 Bcf figure for expected gas cycled. (IIEC Ex. 1)

Nicor Gas' Response

Nicor Gas responded to IIEC's proposal regarding the correct numerator and denominator in the calculation. Nicor Gas argues that IIEC is incorrect in stating that Hub revenues should be credited to the cost number in the numerator as discussed previously. Nicor Gas's arguments in favor of using the 120 Bcf figure for expected gas cycled are the same as those discussed previously in section IX(B)(3)(a). (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0)

Commission Conclusion

IIEC argues that the SBS charge should be set using a credit to transport customers for Hub revenues and the non-coincident peak value for the cycled gas figure. As previously discussed in sections IX(B)(8)(a)(1) and IX(B)(8)(a)(2) respectively, the Commission finds that these proposals are appropriate and, therefore, the Commission approves Nicor Gas' proposed SBS charge, with the modification presented by IIEC regarding use of the 149.74 bcf working gas factor. To the extent Nicor cannot reflect Hub revenues for transportation customers in base rates, another mechinims must be created to address this issue

(c) Cycling

Nicor Gas' Proposal

Underground aquifer fields, including all the gas storage fields owned by Nicor Gas, physically require that gas be seasonally cycled – that is, that gas be injected to near capacity and then drawn down each year. Nicor Gas asserts that failure to properly cycle the storage fields would lead to loss of capability in the short run, and possibly, in the long run as well. (Nicor Gas Ex. 8.0)

Nicor Gas proposes to establish cycling targets for the use of gas storage by end use transportation customers. Specifically, Nicor Gas proposes that failure to bring stored gas levels to at least 90% by November 1 would result in reduction of Critical Day and OFO Shortage Day withdrawal capability, and failure to reduce balances to 10% or less of the maximum inventory level by April 1 would result in a reduction in the customer's daily summer injection rights. Nicor Gas believes that this leaves transportation customers with significant flexibility; a transportation customer can draw its entire storage down to zero during the winter season, fill it back up, and suffer no consequences so long as it draws down to 10% before April 1. (Nicor Gas Ex. 8.0)

Under the current regime, in which there are no cycling targets for transportation customers, Nicor Gas argues that it is entirely possible, and even likely, that individual customers will actually work against Nicor Gas' attempts to cycle its storage fields. According to Nicor Gas, to the extent that end use transportation customers elect to withdraw and inject gas in a manner inconsistent with the physical requirements of the fields, Nicor Gas and its customers must either suffer a degradation of this valuable asset, or Nicor Gas must use its own purchases to compensate. (Nicor Gas Ex. 8.0)

Staff's Position

Staff supports Nicor Gas' proposal for a 90% gas in storage requirement by November 1. However, Staff disagrees with the penalty provision proposed by Nicor Gas, since Nicor's proposal would assess a penalty beginning at 89% equal to the first 11% of storage, instead of 1%. In addition, Staff disagreed with the requirement to cycle all but 10% by April 1.

RGS Position

The RGS stated that they agreed with Nicor that: (1) if a supplier did not fill its storage to the required level, such supplier should not have access to the storage that was not utilized, and (2) if additional gas was left in storage as rollover gas, the supplier should not be entitled to inject the full amount without a reduction in accordance with the rollover volume. However, the RGS explained that there was no justification for penalizing suppliers for the first 10%, since the basis or target proposed by Nicor was 90%, not 100%.

IIEC/CNE's Position

IIEC opposes Nicor Gas' proposals to require transportation customers to cycle their storage. IIEC highlights that neither Hub customers nor Nicor Gas itself cycle to the proposed levels. In addition, IIEC argues that the storage fields need not be cycled by November 1 and April 1, as these dates are driven by the space heating needs of the sales customers. (IIEC/CNE Jt. Ex. 1)

Nicor Gas' Response

Nicor Gas stated, and IIEC agreed, that for Nicor Gas to compensate for the actions of the transportation customers when those actions run counter to the required cycling of the fields, Nicor Gas must deviate from its own planned purchases. Nicor Gas argues that as a result, the transportation customers effectively force Nicor Gas to alter its purchases, even if it results in added costs – purchases when the price is high, or scaling back purchases even though the price is low. These costs are borne, Nicor Gas claims, by the sales customers, even though cycling is a necessary action that benefits all customers on the Nicor Gas system. (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0)

Nicor Gas presented evidence that in the summer of 2004, prices were expected to go down, and transportation customers held off on their purchases for storage. Nicor Gas, in order to get the fields up to the required levels, had to act, despite the prices, to acquire the needed gas. Then, in late summer, expectations changed, and higher prices were predicted. According to Nicor Gas, transportation customers began increasing injections aggressively, attempting to fill space in October that Nicor Gas had already filled. Nicor Gas claims it was forced to reduce its own purchases, contrary to what it would want to do based on price expectations. (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0)

In regard to the transportation customers' argument that Nicor Gas itself does not meet the cycling targets it wants to set, particularly on the Spring 10% withdrawal side, Nicor Gas argues that it is not appropriate to look at the total volume of working gas that Nicor Gas cycles, because, as discussed in Section IX(B)(8)(a)(1) of this Order, Nicor Gas prudently does not cycle every therm of its working gas. Thus, according to Nicor Gas, only the gas that Nicor Gas plans to cycle is allocated to the transportation customers. Second, Nicor Gas contended that the system-wide minimum gas storage level is not an accurate indication of Nicor Gas' cycling. Nicor Gas presented evidence that Nicor Gas' fields do not reach their minimum level all at the same time, so that on any particular day, the system-wide level may not reflect the minimum for a particular field. (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0)

According to Nicor Gas, the arguments made by the intervenors, and picked up in part by Staff, that there are various operational things Nicor Gas could do to cycle its fields even with the transportation customers continuing to work against it, ignore the cost of these solutions. Nicor Gas admits that it is "physically capable" of cycling its fields, even without the proposed incentives. However, Nicor Gas argues that the issue is not whether Nicor Gas can cycle, but rather who should bear the cost of this cycling when Nicor Gas is forced to take actions to get it done. These costs of operating the system and compensating for the actions of the transportation customers fall primarily on the sales customers.

Commission Conclusion

The Commission is perplexed as to how Nicor can argue that transportation customers must act in a certain manner, regarding injections and withdrawals, while Nicor Gas itself follows different standards. As was the case with respect to the storage allocation issue addressed in Section IX(B)(8)(a)(1) of this Order, Nicor is attempting to require transportation customers to pay for storage that they would not be allocated (in using the anticipated cycled gas instead of the working gas number for allocation purposes), reducing the amount of storage that they receive in the first instance, and then further requiring them to inject and withdraw beyond what is necessary in the second instance, in effect reducing transportation customers' storage twofold. This discrimination against transportation customers is further exacerbated by the fact that Nicor has testified that it must withdraw as much as it can from storage on a periodic basis to ensure the integrity of the system. However, it is undisputed that cycling is a critically important part of managing gas storage fields. A minimum and maximum seasonal target is reasonable in meeting this goal, however, Nicor's prosed targets are not reasonable. Therefore, the Commission rejects Nicor's proposal regarding storage injection and withdrawal ratchets for transporation customers and instead approves Staff recommendations in full.

2. Rider 16 (Customer Select) – Gas Management Issues

Customer Select suppliers DRI and RGS proposed a number of changes to provide Customer Select suppliers with additional flexibility. Nicor Gas believes that the changes suggested by DRI and RGS are so significant that they should be handled outside this proceeding. Nicor Gas believes this is particularly true because it has a large and successful customer choice program.

(a) Storage Capacity Allocation

DRI's Proposal

Storage capacity is discussed above with regard to the arguments of transportation customers, in Section IX(B)(8)(a)(1)" of this Order. However, DRI rejected the formula for allocating storage capacity that the Commission approved in Nicor Gas' previous rate case. Rather, DRI made an alternate proposal that Customer Select customers should be allocated 38% of their annual requirements in Nicor Gas' on-system storage capacity. DRI submitted draft rules that cover on-system storage assignment, based on another LDC's rules. (DRI Ex. 1)

Nicor Gas' Response

Nicor Gas opposed DRI's proposal. According to Nicor Gas, DRI is attempting to obtain an allocation that is clearly out of proportion to other customers on the Nicor Gas system. Nicor Gas' annual sendout is approximately 500 Bcf. Nicor Gas argues that applying the 38% figure across the board to the entire sendout, would call for 190 Bcf in allocated storage, which all parties agree is more on-system storage capacity than Nicor Gas has.

The Commission's Conclusion

Nicor Gas has shown that an allocation based on peak day methodology is a reasonable, although not the only method of determining storage allocation. Therefore, the Commission rejects DRI's proposal.

(b) Storage Withdrawal Rights

This issue is discussed above, as to transportation customers, in Section IXB(8)(a)(2) of this Order. The Commission's finding above is also relevant to the issue of storage withdrawal rights for Customer Select customers. Additionally, Customer Select customers' daily delivery and storage utilization issues are discussed in more detail in subsection (c) of this section.

(c) Daily Delivery Algorithm/Weather Sensitivity

DRI Proposal

DRI proposed, as a less desired alternative to the full control over on-system storage and upstream capacities (discussed below in subsection (e)), that the calculation of the daily delivery obligation be dampened by removing the temperature factor from the models. (DRI Ex. 1)

Staff' Position

Staff suggests a change in determining the daily deliveries to Customer Select suppliers. Staff suggested that the proposal made by DRI was proper and suggested that, unless the Commission wanted a more gradual approach, it should adopt the DRI approach with respect to storage utilization for Select customers. Otherwise, Staff suggested that the approach used for Peoples Gas' small volume transportation customers could provide an intermediate solution. (Staff Ex. 8.0)

RGS Position

The RGS proposed a change to the Customer Select Program that would provide Customer Select customers with daily utilization rights that are more on par with those rights currently experienced by Sales customers. RGS stated that, as a result of the current system, Select customers are compelled to continually increase their daily nominations as temperatures drop, and cannot access storage gas to meet daily delivery needs beyond the 10% daily tolerance provided by Nicor. RGS proposed the following as a means to provide Customer Select customers with daily access to storage, within system parameters to be on par with Sales customers:

1. Nicor would forecast the daily requirements for each Select supplier aggregation based on a daily demand curve. This projection would be more simplified than the projection that Nicor presently makes.

2. Suppliers would be responsible for delivering gas to meet the needs of the demand requirements through a combination of flowing supply and on-system storage withdrawal.

3. Identical to the way in which transportation suppliers are treated, on-system storage would be utilized automatically for Select suppliers by taking the difference between the demand requirements and flowing supply.

4. Assuming the Commission accepts the RGS recommendation that suppliers be authorized to elect assignment of upstream capacity, Select suppliers who elect assignment of upstream storage capacity would be limited to using no more than 50% of their MDCQ of on-system storage gas to meet the demand requirements, plus 17% from upstream storage, with the remaining volumes to be flowing supply.

5. Select suppliers who do not elect assignment of upstream storage capacity would be limited to using no more than 50% of their MDCQ of on-system storage gas to meet the demand requirements with the remaining volumes to be flowing supply. Since the additional upstream assets are paid for through the CSBC charge, peaking and balancing services would be provided by Nicor, up to the 17% upstream asset level.

6. From November 1st through March 31st Select suppliers would be able to deliver up to 110% of their daily demand requirements, with excess deliveries over the demand requirements going into storage.

7. Select suppliers would be required to maintain their storage balance between the following minimum and maximum levels each month November through April:

Date	Minimum	Maximum
November 1	95	100
December 1	75	95
January 1	55	75
February 1	35	55
March 1	15	35
April 1	0	20

8. Select suppliers would be cashed out for storage volume outside the minimum and maximum storage.

9. There would be no monthly cash outs for banked volumes.

Nicor Gas' Response

Nicor Gas argues that it is not appropriate to consider Staff's proposal, absent proof that Nicor's currently filed tariff is unjust and unreasonable. As Staff noted, the changes to the Peoples Gas tariffs came at the end of a collaborative process involving the utility and affected customers. Nicor Gas has engaged in similar processes, including a process that led to changes to its Customer Select tariffs this past winter season. Nicor Gas argued that an important change such as the altering of the algorithm should only be done deliberately, and with the input of affected customers. In particular, Nicor Gas highlighted the fact that the Peoples Gas program to which Mr. Borden cites has only about 12,000 customers, less than 5,000 of which are residential. The Nicor Gas Customer Select program is much larger, and should therefore be treated with appropriate care. (Nicor Gas Ex. 24.0)

The Commission's Conclusion

The Commission finds that the changes proposed by Staff, DRI and RGS are necessary to create equity on the Nicor system, and that without the changes to the Customer Select program Nicor is not entitled to its other requested changes. Therefore, as stated below, the Commission adopts RGSs proposals to modify the daily delivery algorithms.

(d) Monthly Balancing Tolerance/Penalty

Nicor Gas' Proposal

Nicor Gas proposed to increase from 2% to 5% the tolerance level applicable at month-end to the variation between required deliveries for the month and actual deliveries nominated by the Customer Select supplier. Nicor Gas argues that the current Customer Select program provides significant supplier discretion to vary on a daily basis from the daily nomination requirements, and would get greater flexibility from the increase in the month-end tolerance. (Nicor Gas Ex. 12B.1, Sheet 75.5; Nicor Gas Ex. 8.0)

DRI' and RGS Position

DRI and the RGS propose to eliminate entirely any monthly limitation on variance between required and actual deliveries. (DRI Ex. 1; RGS Ex. 1.0.) This would result in a maximum month-end variance of 10% given the daily variation of 10% which would remain unchanged.

Nicor Gas' Response

Nicor Gas states that DRI's request is not appropriate. Nicor Gas states that under Nicor Gas' proposed rules, while a supplier cannot under-deliver at the maximum limit for every single day of the month, a supplier could under-deliver at the maximum level for at least 15 days without a penalty. (Nicor Gas Ex. 24.0)

Commission Conclusion

Given the Commissions conclusion regarding Daily Delivery Algorigthms and Weatter Sensitivity discussed in the immediately preceding section, the Commission finds that Nicor Gas' proposal to increase the limitation from 2% to 5% is unnecessary, and that the monthly balancing tolerance will no longer be necessary and is, therefore, eliminated

(e) Access to Upstream Capacity/Elimination of Aggregation Balancing Service Charge

DRI's Proposal

DRI has proposed that Nicor Gas grant all Customer Select suppliers control over some portion of Nicor Gas' upstream storage capacity leased under its interstate pipeline contracts. DRI suggests that Nicor Gas should release to Customer Select suppliers upstream storage capacity on a yearly basis, and upstream transportation capacity on a monthly basis. DRI offered that in return for control over a portion of Nicor Gas' upstream interstate pipeline storage and transportation pipeline contracts that DRI would be willing to bring in additional gas deliveries on critical days and/or during peak periods. (Crist, DRI Ex. 1)

RGS' Position

RGS joins in DRI's proposal to allow Customer Select suppliers control over upstream capacity. (RGS Ex. 1.0)

Nicor Gas's Response

Upstream capacity means the transmission storage and pipeline assets of companies other than Nicor Gas – typically those of interstate pipeline companies - from which Nicor Gas has contracted to maintain needed deliveries and operational flexibility. (Nicor Gas Ex. 24.0)

Nicor Gas' contracts for upstream capacity are subject to FERC rules and upstream pipeline tariffs. Nicor Gas states that the terms and conditions of those contracts are within the jurisdiction of the FERC, and it is not clear that the rights DRI and RGS seek are within the power of the Commission to grant them. Indeed, the FERC rules and FERC-jurisdictional interstate pipeline tariffs, which Nicor Gas must follow, contain provisions that govern capacity releases (assignments), and generally restrict discriminatory releases. Nicor Gas suggests that it would not be appropriate to entertain sweeping proposals to completely transform the Customer Select program without significantly more information, and without a demonstration that the rights transferred from Nicor Gas to the Customer Select suppliers will not be illegal, or detrimental to other customer classes.

The Commission's Conclusion

DRI has proposed various changes to the Customer Select program which would result in significant changes to the program and to the relationship between Nicor Gas, Customer Select suppliers, Customer Select customer and Nicor Gas customers. Such sweeping changes should not be taken lightly. Based on the record before it, the Commission rejects DRI's proposals in this proceeding to require capacity assignments from Nicor Gas. Nicor Gas argued that it uses its upstream storage and transportation capacity for the benefit of all customers, in short, to operate the system effectively and efficiently, but provided no examples of how this is accomplished, or whether it is done in an equitable manner. Nicor has presented no evidence that contradicts DRI or the RGS' evidence that Select customers are currently paying for upstream assets through base rates and receive little in return. Nicor does not refute that the assets for which Select customers pay through base rates translates into approximately 17% of a peak day storage withdrawal right. Also, as explained by RGS, the current tariff provides for a corresponding reduction in the CSBC charge for marketers that can demonstrate that they have comparable assets and contemplates assignment of those assets by Nicor to those marketers that desire such an assignment. Therefore, the Commission finds DRI and RGS' comments to be well taken, and directs Nicor to offer select suppliers the option take a recallable assignment of upstream assets to both. If the assignment includes Customer Select suppliers taking the corresponding assignment of the contracts on a recallable basis along with the fees associated with those contracts, Nicor is directed to eliminate the CSBC charge related to those contracts that are assigned. Further, Nicor is to convene a working group within 30 days of entry of this order to work with all interested stakeholders to develop an allocation and assignment proposal related to upstream assets that will provide Customer Select customers with equitable access to the upstream assets before this winter's heating season.